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SUBJECT: TERRORIST FINANCE: SUMMARY OF OFAC DIRECTOR WERNER'S MEETINGS WITH KUWAITI BANKS

REF: KUWAIT 4214

1. (U) Summary. On September 22, OFAC Director Robert Werner met separately with officials from the National Bank of Kuwait, the Union of Kuwaiti Banks and the Kuwait Finance House to discuss ways in which OFAC and the Kuwaiti banking sector can further cooperate on combating terrorist financing and money laundering (CTF/AML). Banking officials reaffirmed their commitment to pursuing stringent CTF/AML policies, described coordination and accountability policies administered by the Central Bank of Kuwait (CBK), offered suggestions on revising OFAC English name designations and recommended convening annual CTF/AML conferences for government and industry officials to facilitate information exchange. (Post endorses the idea of annual regional conferences on CTF/AML for USG and industry officials. Post will consult with Treasury on details and report septel with suggestions.) End Summary.

2. (U) On September 22, OFAC Director Robert Werner, accompanied by Embassy and Treasury officers, met separately with the representatives from the National Bank of Kuwait (NBK), Kuwait Finance House (KFH) and the Union of Kuwaiti Banks (UKB) to discuss OFAC responsibilities and exchange insights on the latest banking sector efforts to combat terror financing and money laundering (CTF/AML). (Reftel reports on Werner delegation meetings with GOK officials.)

Meeting with National Bank of Kuwait

3. (U) In his meeting with Essam Al-Sager, Vice Chairman of the National Bank of Kuwait (NBK), Werner provided an overview of OFAC responsibilities, including the new sanctions program to combat the support networks of proliferators of weapons of mass destruction, and solicited Al-Sager's input on NBK policies and procedures on terror finance name designations and coordination with the Central Bank of Kuwait (CBK). Al-Sager informed Werner that NBK updated its lists based on CBK, OFAC, and Bank of England listings. He explained that NBK maintained an automated software system that performed primary and secondary checks on names to minimize false alarms. Any suspicious activities, although very limited in number, were promptly reported to the CBK and Public Prosecutor's Office (PPO), in accordance with GOK regulations. Al-Sager noted that NBK had daily contact with the PPO and CBK on these and other regulatory matters.

4. (U) Werner underscored the importance of direct contact between the government and banks, and explained that OFAC's interaction with U.S. banks was mutually beneficial, helping banks avoid risk and promoting USG sanctions. Werner encouraged continued risk management and compliance, particularly when dealing with vulnerable organizations like charities and exchange houses. Al-Sager asserted that NBK had closed the accounts of its exchange house clients as a precautionary measure and provided monthly reports on charities' accounts to the CBK. He commented that charities were becoming "increasingly frustrated" with the new control measures being imposed by the regulators. Al-Sager welcomed Werner's suggestion that NBK subscribe to OFAC's automated alert system and make use of its "hotline" to address any CTF/AML-related questions or concerns (Note: Embassy will follow-up on this issue with NBK.)

Meeting with Union of Kuwaiti Banks

5. (U) Werner's meeting with the Union of Kuwaiti Banks (UKB) included the organization's Secretary General, Yousef Al-Jassem, the Assistant Secretary General, Nabil Al-Sagabi, and other UKB members including the head of AML at Kuwait Finance House (KFH) Medhat Al-Kharashi, head of Compliance at the Commercial Bank of Kuwait (CB) Hanan Al-Kazemi, and the head of AML at Boubyan Bank (BB) Waleed Al-Awadi. Werner conveyed his organization's shared objectives and commitment to a lasting partnership with Kuwaiti banks. He welcomed the

UKB's feedback and insights on OFAC policies, the Kuwaiti banking sector's programs, including the filing of Suspicious Transaction Reports (STRs), new terror finance designations, and coordination between Kuwaiti banks and the CBK.

16. (U) Al-Jassem reaffirmed Kuwait's shared objectives with the U.S. in the war on terrorism, noting that Kuwait itself "was a victim of terrorism." He expressed confidence in the Kuwaiti banks' efforts to implement CTF/AML regulations. The head of Compliance at the CB and UKB, Hanan Al-Kazemi, asserted that Kuwaiti banks are in compliance with FATF and CBK regulations, through due diligence and monthly transaction reporting and notification of STRs to the PPO and CBK. She said that coordination with both GOK entities was good and that a CBK representative, the head of the FIU, served as a liaison officer in the UKB. She explained that any account suspected of an STR is blocked by banks for two days pending further notification from the PPO. The KFH representative, Medhat Al-Kharashi, pointed out that the Kuwaiti banking sector's relatively small size made it easier for colleagues to exchange information informally on a timely basis. Al-Kazemi added that accounts can be blocked on PPO direction for an indefinite period of time pending PPO investigation and that bank officers are legally protected from lawsuits or retribution from their own banks for blocking suspicious accounts. She explained that even non-account holders can be reported by banks for suspicious activities, but that Kuwaiti banks in general were more conservative than their U.S. counterparts and filed fewer STRs.

17. (U) Boubyan Bank's Waleed Al-Awadi said that Kuwaiti banks consulted OFAC lists for "red flags" on potential STRs and not for blocking accounts, clarifying that only CBK notifications based on UN designations were used for blocking purposes. KFH's Al-Kharashi noted that most banks manage their risks by minimizing business transactions with high risk nationalities or countries. All of the representatives voiced concern with the current practice of listing Arabic names in English, urging OFAC to consider "Arabizing" the names by listing them in the original Arabic to avoid mistaken identities. Werner expressed similar concern and promised to follow-up on the issue (Note: this issue was also raised by GOK officials reported reftel.)

18. (U) Werner expressed concern with the Ministry of Social Affairs and Labor's seeming reliance on third-country regulations for monitoring charity fund transfers abroad. Secretary General Al-Jassem asserted that from a banking

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perspective "charity activities were under control." He explained that charities are not authorized to open bank accounts without proper licenses from the Ministry of Social Affairs and approval from the CBK. He added that all charity banking transactions are approved by the government and reported to the CBK on a monthly basis. Al-Kharashi urged Werner to consider organizing annual conferences (twice a year) for regional bankers and regulators to discuss "the latest and best methods" on CTF/AML affecting the Middle East. Werner was receptive to the idea and offered to explore it further with other USG colleagues.

Meeting with Kuwait Finance House

19. (U) In his meeting with KFH Deputy General Manager Mohammad Al-Omar, Werner solicited the KFH's input on the bank's CTF/AML efforts, including reporting on charity transactions, and welcomed feedback on OFAC's name designation process. Al-Omar said his organization had practiced long-standing diligence against terror finance and money laundering. He noted that KFH's stringent practices preceded September 11, 2001 and were rated among the best in the region. KFH's Director of Business Consultancy, Salman Younis, pointed out that as a prior Citibank official he had in 2001 reviewed and determined KFH CTF/AML measures to be "better than most in the region." Al-Omar explained that KFH has an established CTF/AML unit, headed by Medhat Al-Kharashi (member of UKB) tasked with developing and implementing the bank's CTF/AML policies in accordance with CBK and international regulations. Al-Kharashi described the bank's control process as "robust," explaining that the bank did not accept walk-in customers and was in the process of installing an automated name-checking private sector software "NET ECONOMY/ERASE" to review and create customer profiles for increased security. Al-Jassem noted that banks were busy educating their respective customers on the new policies and regulations, a process that was gradually winning more support from the Kuwaiti public.

10. (U) Al-Kharashi said that all KFH systems were connected to OFAC lists and that the bank received OFAC advisory alerts on a regular basis, at times even earlier than the CBK. Al-Omar and his staff were receptive to OFAC's description of the USG terror finance name designation process and

reiterated the need to "Arabize" designated names for easier identification. On charity monitoring, Al-Omar explained that while KFH had in place stringent accounting procedures, including monthly audited reports to the CBK, ultimate responsibility for overseas fund transfers lay with the GOK to ensure proper oversight and accountability. Al-Kharashi said that charities have GOK-designated signatories authorized to sign for transfers and that KFH confirms those signatures prior to authorizing transfers. Al-Omar welcomed continued dialogue with OFAC as part of Kuwait's broader commitment to the war on terror.

Background on Banks

11. (U) National Bank of Kuwait (NBK): Largest bank in Kuwait by assets, 49 branches, 2004 profits of \$515 million. The third largest bank in the Arab world, with the highest credit rating in the Middle East. NBK has branches, offices, or partnerships in Iraq, Qatar, Jordan, Lebanon, London, New York, Paris, Geneva, Bahrain, Singapore, Vietnam and Thailand.

-- Kuwait Finance House (KFH): Market leader in Islamic banking, second largest financial institution in Kuwait with profits of \$200 million in 2003. As of 2005, KFH officially came under the same regulatory and oversight structure as other Kuwaiti banks. Previously did not have to comply with commercial banking regulations and enjoyed "unfair advantages," according to some commercial bankers. (Note: KFH is usually not ranked with the commercial banks, but is second only to NBK in the size of its assets.)

-- Commercial Bank of Kuwait (CBK): Third largest bank in Kuwait, 39 branches, 2004 profit of \$214 million.

-- Boubyan Bank (BB): Kuwait's newest Islamic bank, established in 2004. Recently acquired 20% stake in Indonesia's largest Islamic bank, Bank Muamalat Indonesia. Plans underway to expand operations in the Gulf, Iran and Turkey.

-- Union of Kuwaiti Banks (UKB): Formal association of Kuwait banks, established in 2001 and comprised of 10 committee members representing the GOK, Kuwaiti banks and financial institutions. Head of Central Bank's AML unit serves as GOK liaison.

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